

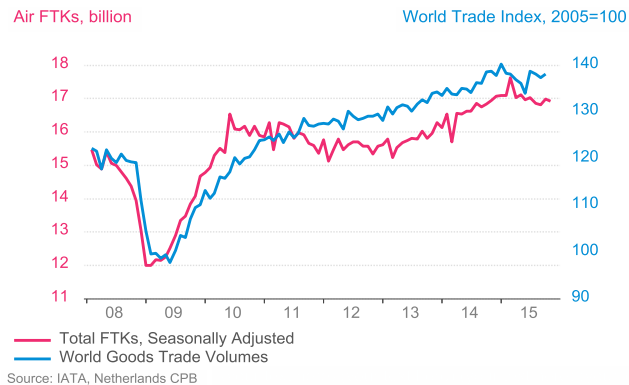
AIR FREIGHT MARKET ANALYSIS

OCTOBER 2015

KEY POINTS

- ➔ Air freight volumes in October were 0.5% higher compared to October 2014, but this was due to weakness in the year ago period, as freight tonne kilometers actually declined compared to September 2015, which had seen a small increase over the prior month. The decline was largely driven by the performance of European carriers, whose recent positive growth trend reversed in October. Indicators of business confidence and trade to/from the region suggest there will be modest growth ahead for the group, however.
- ➔ The first chart below shows the growth trend in air freight volumes and world trade. The downward trend in FTKs we have seen throughout much of the year appeared to have eased in Q3 with a small increase in volumes, mostly due to better conditions in advanced economies. This slight upward trend did not continue in October, with FTKs contracting by 0.4% compared to September, but volumes are still above the mid-year lows.
- ➔ Carriers in all major regions were off to a weak start in Q4. European airlines recorded a rise of just 0.2% in October year-on-year. But the better performance seen in recent past months is expected to continue with improvements in Eurozone manufacturing and export orders likely to support air freight demand. Airlines in Asia Pacific, which carry the greatest share of global air cargo, continue to experience weakness. Asia Pacific carriers recorded an increase of just 0.3% in October. Conditions in the region remain fragile with China and other key export economies, including Korea and Chinese Taipei, continuing to see disappointing trade growth.
- ➔ Load factors fell further in October, below 44% on a seasonally adjusted basis, which is a level not seen since 2009. In addition to recent weakness in cargo demand, there has been continued capacity expansion, mostly from growth in the passenger business, and this has placed downward pressure on cargo load factors.
- ➔ The outlook for air freight and world trade remains very fragile with continued weakness in key regions like Asia Pacific. That said, indicators in the Eurozone are looking better and globally, exports orders have improved. This suggests that improvements in some regions could prevent further declines in air cargo demand in the months ahead.

Air FTKs and World Trade Volumes



Ratio of World Trade to Domestic Industrial Production and Ratio of FTKs to World Trade



Year on Year Comparison

	Oct 2015 vs Oct 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
International	0.5%	6.0%	48.0%	3.0%	6.6%	47.3%
Domestic	0.4%	4.2%	31.2%	0.2%	2.6%	29.9%
Total Market	0.5%	5.7%	44.8%	2.6%	5.8%	44.0%

Month on Month Comparison

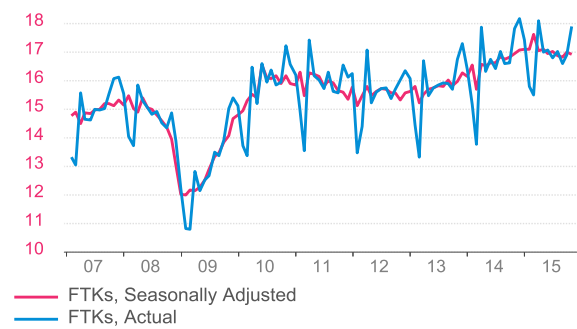
Oct 2015 vs. Sep 2015		
FTK	AFTK	FLF pt
-0.8%	0.0%	-0.4%
1.9%	1.4%	0.2%
-0.4%	0.3%	-0.3%

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor; All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Data are seasonally adjusted. All figures are expressed in % change MoM except, FLFpt which are the percentage point difference between load factors of two months.

Total Freight Market

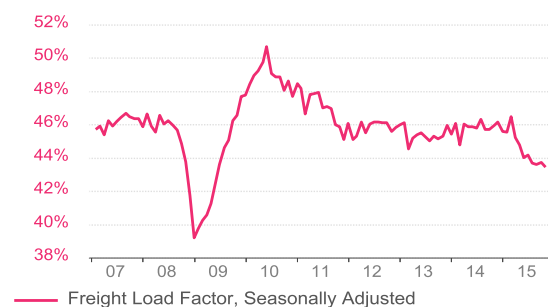
Monthly FTKs, billion



Source: IATA

Freight Load Factor on Total Market

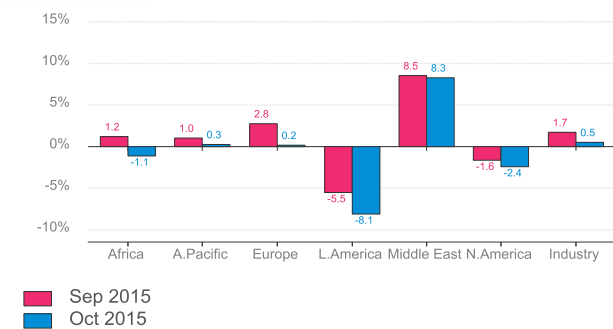
% of AFTKs



Source: IATA

Total Freight Growth by Region

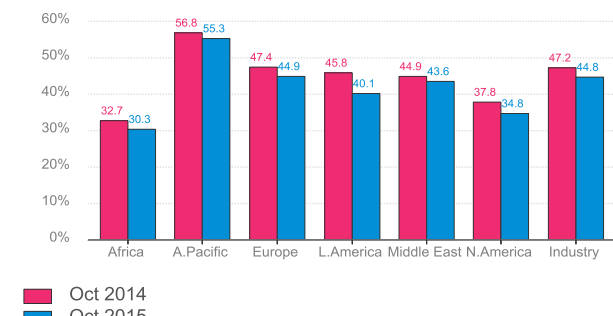
% growth in FTKs



Source: IATA

Total Freight Load Factor by Region

% of AFTKs



Source: IATA

- ➔ In the first half of 2015, declines in world trade reflected weaker than expected global economic growth as well as focal shifts in some economies. Global economic growth weakened owing to slower growth in a number of emerging economies, including China, Brazil and Argentina. The sluggish demand backdrop has been compounded by China's shift in focus toward its domestic market as well as the USA's support of its own manufacturing sector.
- ➔ Air cargo markets have broadly followed the trend in world trade. And this includes more recent developments, which show that the downward trend in world trade volumes appears to have paused. This had helped contain further weakness in air freight markets in Q3.
- ➔ But the start of Q4 was marked by weakness in all major regions. Carriers in Europe recorded a rise of 0.2% in October, year-on-year. That said, the better performance seen in recent months is expected to continue with improvements in Eurozone manufacturing and export orders likely to support air freight demand. Improvement in trade activity to/from Central and Eastern Europe should also help the air freight businesses of local carriers.
- ➔ Airlines in Asia Pacific, which carry the greatest share of global air cargo, continue to experience weakness. Asia Pacific carriers recorded an increase of just 0.5% in October. Although early H2 data show that declines in trade to/from Emerging Asia appear to have bottomed out, or at least paused, conditions in the region remain fragile. China and other key export economies, including South Korea and Chinese Taipei, continue to record disappointing trade growth. On a positive note, however, there was a large spike in export orders for China in October. Typically, this would indicate an acceleration in exports in the coming 2-3 months, and would likely reflect better demand in regions like the Eurozone.
- ➔ Carriers in North America recorded a decline in FTKs of 2.4% in October year-on-year. Airlines in this region have experienced a significant decline in FTK volumes since the boost from modal shift due to seaport congestion earlier in the year. Recent month-to-month results suggest that weakness in volumes so far this year may be coming to a halt. However, when looking at the most recent manufacturing and export order readings, they have fallen back into contractionary territory. This does not bode well for trade to/from the region in the near-term and for air cargo demand on North American carriers.
- ➔ Continued growth in air freight carried by Middle Eastern airlines, up 8.3% in October year-on-year, has helped offset weakness in other regions. Major economies in the Middle East, including Saudi Arabia and the United Arab Emirates, have seen slowdowns in non-oil sectors (Markit), but the rates of growth remain robust and this should help sustain solid growth in air freight demand for local carriers.
- ➔ In Latin America, the region's carriers recorded a big fall of 8.1% in October. With economic and political conditions in key economy Brazil worsening, regional trade activity has been very volatile over recent months. That said, air freight demand on carriers in this region has shown little correlation with trade to/from the region. Rather, it has mirrored the weakening consumer sentiment in the key economies.

- African airlines, carrying a small part of worldwide FTKs, recorded a fall in FTKs of 1.1% in October year-on-year. From the perspective of demand drivers, major economies Nigeria and South Africa underperformed during parts of 2015, however, regional trade activity is holding up, which should support demand for air transport of goods.

ANNEX

Year on Year Comparison	Oct 2015 vs. Oct 2014			YTD 2015 vs. YTD 2014		
	FTK	AFTK	FLF	FTK	AFTK	FLF
Africa	-1.0%	7.5%	31.6%	3.6%	3.9%	31.1%
Asia/Pacific	0.6%	5.0%	57.9%	3.0%	5.6%	57.2%
Europe	0.3%	5.5%	45.9%	0.3%	4.2%	45.8%
Latin America	-8.1%	1.1%	45.3%	-6.0%	-1.3%	42.7%
Middle East	8.3%	11.4%	44.0%	12.5%	17.0%	43.0%
North America	-5.4%	4.4%	39.4%	0.0%	4.7%	38.6%
International	0.5%	6.0%	48.0%	3.0%	6.6%	47.3%
Africa	-1.1%	6.9%	30.3%	3.4%	3.8%	29.8%
Asia/Pacific	0.3%	2.9%	55.3%	3.0%	5.0%	54.2%
Europe	0.2%	5.6%	44.9%	0.0%	4.4%	44.4%
Latin America	-8.1%	5.0%	40.1%	-5.9%	2.0%	38.0%
Middle East	8.3%	11.6%	43.6%	12.6%	17.0%	42.6%
North America	-2.4%	6.0%	34.8%	-0.1%	3.2%	34.1%
Total Market	0.5%	5.7%	44.8%	2.6%	5.8%	44.0%

FTK: Freight-Tonne-Kilometers; AFTK: Available Freight Tonne Kilometers; FLF: Freight Load Factor;
All Figures are expressed in % change Year on Year except FLF which are the load factors for the specific month.

Month on Month Comparison	Oct 2015 vs. Sep 2015			Market Share
	FTK	AFTK	FLFpt	FTK
Africa	-0.8%	0.7%	-0.5%	1.7%
Asia/Pacific	-0.4%	0.3%	-0.4%	39.5%
Europe	-0.7%	0.4%	-0.5%	25.8%
Latin America	1.0%	0.1%	0.4%	3.0%
Middle East	-1.7%	0.5%	-1.0%	16.2%
North America	-1.3%	-1.7%	0.2%	13.8%
International	-0.8%	0.0%	-0.4%	100.0%
Africa	-0.8%	0.5%	-0.4%	1.5%
Asia/Pacific	-0.4%	0.2%	-0.3%	38.3%
Europe	-0.3%	0.3%	-0.2%	22.8%
Latin America	0.9%	3.6%	-1.0%	2.9%
Middle East	-1.7%	0.5%	0.0%	14.1%
North America	0.1%	-0.2%	0.1%	20.4%
Total Market	-0.4%	0.3%	-0.3%	100.0%

Data are seasonally adjusted. All Figures are expressed in % change Month on Month except PLP pt and FLF which are the percentage point difference between load factors of two consecutive months.

Julie Perovic

E-Mail: perovicj@iata.org

2ND DECEMBER 2015

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